



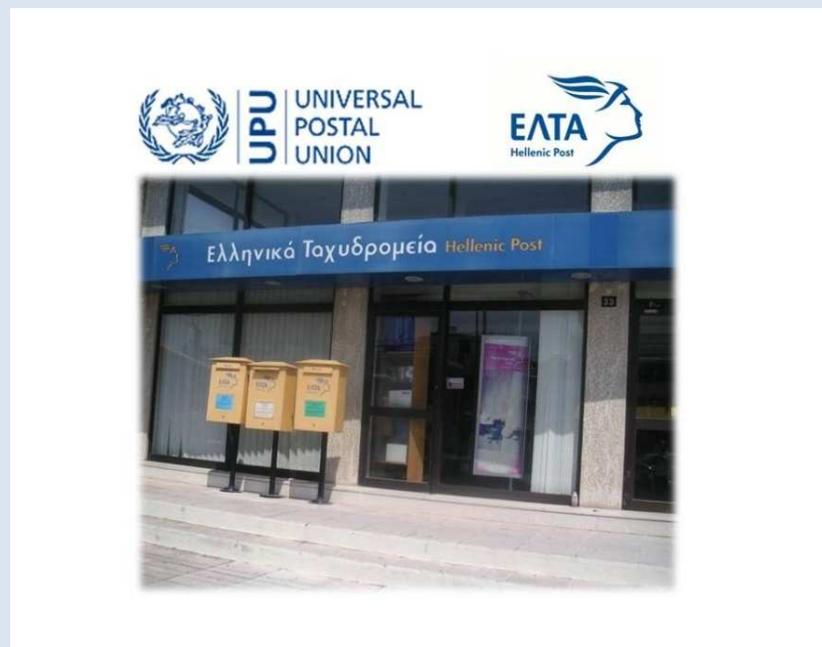
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**«Liberalization and Privatization of the Postal Sector-The case of Hellenic Post-ELTA»**



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*Dimitra Lagou*

.....*George Vekiaris*

## **Abstract**

Recent decades have seen a wave of liberalisation and privatization of public services in Europe (Hermann and Mahnkopf, 2010). The promotion of liberalisation and more indirectly also of privatisation of public services has been one of the core political projects of the European Union since the 1990s. It has been justified by the expectation that the creation of new markets would lead to greater efficiency and would contribute both to economic growth and social wealth. Since 2000, the advanced liberalisation policy of growing parts of public services has also become a core element of the Lisbon strategy, which aims “*to make the European Union the most competitive and dynamic economic area in the world – an economic area which is able to link sustainable economic growth with more and better jobs and a stronger social cohesion*” (Torsten & Schulten, 2008).

However, there has been little evidence on the impact that these phenomena have on employment and productivity from a cross-country perspective. In addition, affordable high-quality public services are an important component of the European Social Model. The objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest have so far been regarded as compatible. This policy brief contains main observations on the impact of privatization and liberalization. Yet, research in the area remains scarce.

To address the above mentioned issues in the literature, this dissertation focuses on the impact of liberalization and privatization on employment, productivity and the quality of public services by analyzing the new labour relations regime of the postal sector. For the purposes of the current study, in particular, the case of Hellenic Post – ELTA of the postal sector in Greece has been selected. The methodology employed is the qualitative approach (in depth interviews and case studies), which was considered as more appropriate and feasible, since it was our aim to

seek deep insight into organizational members' perspective and the experience they have had, associated with privatization and liberalization of the postal sector.

Our results indicate that 1) the liberalisation and privatisation of public postal services have led to a fundamental transformation of the established labour-relations' regimes in the public sector with far-reaching consequences for employment and working conditions 2) liberalized sectors that have already achieved a high degree of market competition. 3) from an employee's point of view, there is a strong belief that liberalization and privatization primarily threaten established standards and lead to a significant deterioration of pay levels and working conditions. As such, the current research provides several theoretical and managerial implications for academics and practitioners alike, while putting forward key messages and recommendations for policy makers.

**Keywords:** Liberalization, Privatization, Hellenic Post – ELTA, European postal operators, postal sector

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## **Chapter 1: Introduction**

Liberalization and privatization appear quite important phenomena for several reasons (Hermann and Mahnkopf, 2010), the most important being that markets were gradually opened to competition. The terms liberalization, competition, deregulation and regulation can have different meanings in the literature depending on what type of liberalization (foreign, domestic) and what type of regulation is discussed. This study uses the term liberalization when referring to the reduction of policy induced barriers to international trade in services. The term privatization is used when referring to the privatization of public entities accompanied or not by the introduction of competition at the domestic level. Privatization does not automatically imply the entry of new competitors, but given that the emphasis in this paper is not on domestic processes, the terminology is kept simple and most of the time no distinction is made between pure privatization and the introduction of competition at the domestic level. The word regulation will be used with a positive connotation and refers to prudential and supervisory regulation. Qualification requirements for service providers, for instance, can be considered to be prudential regulations. But depending on the design, e.g. the restrictiveness and arbitrariness of such requirements, they may also be considered stifling regulation (Jansen, 2006).

This implies that these two notions constitute a completely new way of function for organizations and are supposed to bring major changes in the way in which organizations operate, increasing firms' and markets' effectiveness. However, they are also associated with key challenges and issues that organizations should consider, associated with the two notions' appearance.

To this end, the current study contains a comparative analysis on the impact of privatisation and liberalisation *on labour relations regime between the case of Hellenic Post – ELTA*, the major postal operator in

Greece and six European Postal Organizations - Austria, Belgium, Germany, Poland, Sweden and United Kingdom – through secondary analysis. It is based on primary information and perceptual data provided by the employees of ELTA, who responded positively to our research attempt, an extensive review of existing literature and studies and expert interviews in the surveyed countries<sup>1</sup>.

In particular, the key objective of this study is to gain better understanding of ELTA's process towards liberalization that has already pursued various strategies in terms of corporate transformation, reorganization and product diversification and in search of new markets at home and abroad in order to ready to confront the competition in public service provisions in the opened up markets.. In realizing the aforementioned key objective, we drew upon the way in which the six European Postal Operators responded to the introduction of markets and competition in public service provisions and what role regulations have played in this process, in order to gain deeper insight as to ELTA's case.

The basic hypothesis of the current study is that privatisation and liberalisation of public services can lead to the emergence of new labour relations regimes (LRR) which differ fundamentally from traditional labour relations in the public sector (Bordogna 2007b)<sup>2</sup>. Before the privatisation and liberalization, the LRRs in postal services were either integrated into or closely related to the (country-specific) LRRs of the public sector. In all European countries public sector labour relations differ from those in the private sector. Characteristics of the traditional public sector LRR can be seen in high trade union density, centralized

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<sup>1</sup> "Privatisation of Public Services and the Impact on Quality, Employment and Productivity" (PIQUE) is a three-year project funded by the European Commission's 6th Framework Programme. It involved research centres from six European countries (Austria, Belgium, Germany, Poland, Sweden and the UK).

<sup>2</sup> We define "labour relation regime" (LRR) as a coherent set of institutions (statutory regulation, collective bargaining, employee representation, etc.) regulating labour relations in a certain sector. The term "privatisation" can either refer to "formal privatisation" (i.e. the transformation to a company of private law) or to "material privatisation" (i.e. a change from publicly to privately ownership structure).

collective bargaining, a special work status of the employees (e.g. civil servants) with a high degree of job security and high employee involvement.

This study focuses on the question of what kind of new LRR emerge as a result of liberalization and privatization of the *Hellenic Post – ELTA the major postal organization in Greece*. Some of the key questions that have led our research are the following: Does liberalization and privatization lead to a deterioration of working conditions as a result of wage dumping and labour cost competition? Or is there a tendency to develop new institutions and forms of social regulation which are able to limit competition on wages, working conditions and productivity in the new liberalized markets? In this vein, the dissertation will attempt to explore changes in work, employment and labour relations as well as examine the productivity and quality of service provision. Special attention will be paid to the company level and the question of how liberalisation and privatisation affect company management and organisation and the provision of high-quality services at affordable prices.

As such, from a theoretical perspective the study contributes to enhancing existing knowledge in the area of liberalization. From a managerial perspective, it aims at providing implications to managers and the organization as to the challenges associated with liberalization, so that organization can capture its benefits.

The dissertation is organized as follows. Chapter 2 includes the Literature Review and an analysis of case studies that of the postal services sector. Chapter 3 contains the Methodology employed for the objectives of our dissertation and the case study of Hellenic Post – ELTA. Chapter 4 refers to the Data Analysis, while Chapter 5 provides an analysis and discussion of key findings. The last Chapter provides implications for academics, practitioners and policy makers alike, with the hope to provide some guidance as to the improvement of the postal services' sector.

## **Chapter 2: Review of the Literature**

Privatization is the key to both limited and better government: limited in size, scope, and power relative to society’s other institutions; and better in that society’s needs are satisfied more efficiently, effectively, and equitably. Privatization is both a means and an end. For pragmatists who want better government and for populists who seek a better society, privatization is a means toward those ends.<sup>3</sup>

E.S. Savas.

### **2.1 Exposé**

Privatization is the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (the state or government) to the private sector (businesses that operate for a private profit) or to private non-profit organizations (Wikipedia). In a broader sense, privatization refers to transfer of any government function to the private sector - including governmental functions like revenue collection and law enforcement. The Oxford English Dictionary defines privatisation more broadly to mean “the policy or process of making private as opposed to public.” Economists, political leaders, and government officials tend to define “privatization” differently.

Privatization is a worldwide phenomenon. In recent years all levels of government, seeking to reduce costs, have begun turning to the private sector to provide some of the services that are ordinarily provided by government. The spread of the privatization movement is grounded in the fundamental belief that market competition in the private sector is a more efficient way to provide these services and allows for greater citizen choice. In practice, however, concerns about service quality, social equity, and employment conditions raise skepticism of privatization. Although empirical studies do not provide clear evidence on the costs and benefits of privatization, public perception and pressure for improved government efficiency will keep privatization on the government agenda.

Although privatization is often associated with liberalization, the two can be quite separate processes. In general, liberalization (or liberalisation)

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<sup>3</sup> E.S. Savas, *Privatization: The Key to Better Government* (Chatham, NJ: Chatham House, 1987), p. 288

refers to a relaxation of previous government restrictions, usually in areas of social or economic policy (Wikipedia). Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization. In some contexts this process or concept is often, but not always, referred to as deregulation. Deregulation rather refers more to a reduction in restrictions and protections in order to achieve market economy. The ultimate goal of liberalisation is to open up a specific industry or a country's full economy to competition. Like privatisation advocates the idea that in order to achieve full liberalisation, the majority of economic activity should be in the private sector rather than be run by the state. It is a policy of promoting liberal economics by limiting the role of government to things it can do to help the market economy work efficiently (The Economist). Liberalisation of domestic markets began in the early 1980s in many countries. However Starr (1998) points out that is entirely possible to privatize without liberalizing.

## **2.2 Privatization critiques**

Most privatization research is based on case studies. Savas and Sclar<sup>4</sup> lay out key theoretical and empirical arguments for and against privatization. Proponents argue that private firms are more efficient than government because of economies of scale, higher labor productivity, and fewer legal constraints. They fault government service provision for its monopoly status and inability to be responsive to citizens' needs, resulting in inefficient, one-size-fits-all services. Critics argue that the nature of government services makes many of them inappropriate for privatization. They also point out that contracting may entail hidden costs, because of lack of information, the need for monitoring, and "low-ball" bidding. They note that in some places creating the competition necessary for effective contracting is impossible, and suggest that in practice privatization is more complicated than it seems. A review of recent literature on the theoretical and practical debates on privatization follows.

Savas (1981), an advocate of privatization, describes the theory and practice of privatization and alternative service delivery arrangements, illustrating the appropriate use of various privatization techniques. Savas

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<sup>4</sup> Sclar, Elliot, 2000. *You Don't Always Get What You Pay For: The Economics of Privatization*. Ithaca, NY

views privatization as a strategy to bring about lasting improvements in the management and performance of government. The nature of public goods and services limits the ability to privatize delivery, but Savas provides evidence of when this is possible. The author then reviews alternative service arrangements for providing goods and services. Distinctive attributes of goods and of the market of potential service providers are used to demonstrate conditions under which each privatization alternative works best.

In the second half of the book, Savas provides an extensive literature review (as of 1987) of empirical studies that compare different service delivery arrangements and describe particularly interesting or thought-provoking examples of privatization. For a conscientious public official, four broad strategies are suggested to implement privatization; load shedding, adopting arrangements that have minimal government involvement, instituting user charges, and introducing competition. Savas defines privatization as 'the act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets.' Privatization takes both generic and specific forms: generic forms include contracting out to private or nonprofit firms and volunteer provision of services. Specific forms include food stamps, housing vouchers, and volunteer fire departments. Savas notes the general confusion today over the meaning of the word 'public', varying from 'government ownership' to 'widespread ownership' or 'widespread access'. He notes that in this book 'public service' refers to a wide range of government activities, from trash collection to national defense.

Savas (1987) cites several pressures or reasons that are compelling privatization and divides these reasons into four categories: pragmatic, where people define a need for government to improve services; ideological, where there is a desire for less government; commercial, where the private sector sees opportunities for profit by performing government services; and populist, where people justify privatization in the name of a better society.

Sclar (2000) refers to and criticizes the standard market-based arguments for privatization, using local government case studies. He concludes that advocates of privatization should proceed with caution. Proponents of privatization argue that private firms will respond to competitive market pressures and provide better service at lower cost. While this assertion

has caused much controversy, the debate between both sides has consisted mainly of impassioned defenses of entrenched positions.

In his book, Sclar offers a balanced look at the pitfalls and promises of public sector privatization in the United States. By describing the underlying economic dynamics of how public agencies and private organizations actually work together, he provides a rigorous analysis of the assumptions behind the case for privatization.

The competitive-market model may seem appealing, but Sclar warns that it does not address the complex reality of contracting for government services. Using specific examples, such as mail service and urban transportation, he shows that privatization ironically does not shrink government – the broader goal of many of its own champions. He also demonstrates that there is more to consider in providing public services than trying achieving efficiency; there are issues of equity that cannot be ignored. Sclar argues that public officials and voters will soon realize the limitations of “contracting out” just as private corporations have come to understand the drawbacks of outsourcing. After examining the effectiveness of alternatives to privatization, he offers suggestions for improving public sector performance – advice he hopes will be heeded before it is too late.

Sclar provides a comprehensive overview of the history of privatization, the standard market model and the connections between competition and privatization. He addresses the fundamental choice between the public supplies of private goods<sup>5</sup> versus the private supply of public goods<sup>6</sup>. Sclar offers the example of a low-cost, reliable postal system. Sclar argues that our market economy and democratic society derive important benefits that private niche players, such as FedEx, could not duplicate. Sclar argues that private providers could not offer the range, price, and security of the post office’s services without a public subsidy. He also argues that many public sector products have social components to them.

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<sup>5</sup> A good that is a rival and excludable, is a private good.

<sup>6</sup> A public good is a good that is non-rival and non-excludable. Non-rivalry means that consumption of the good by one individual does not reduce availability of the good for consumption by others; and non-excludability that no one can be effectively excluded from using the good, e.g. (national defense).

The post office in small towns serves a much greater purpose than the simple delivering of the mail.

He analyzes the cost structure of public and private production using empirical data from Canada, California and Ohio to dismiss the myth that private production is more efficient and cost-effective than public production. Sclar illustrates aspects of the real-world play of markets and politics that confront efforts to privatize services with examples that show the complexity of the marketplace in which privatization contracts must be written. In chapter 5, Sclar addresses three key topics: transaction-cost economics, the new institutional economics and contract theory and practice to suggest a more robust and practical approach to contracting. He then uses the Indianapolis Fleet Service example to demonstrate that a clearer understanding of the problems of public work can lead to reform strategies other than privatization. In the last chapter all of his points are brought together in an attempt to summarize all of the problems with privatization.

### **2.3 Privatization concerns**

The theory of privatization is fundamentally based on the notion of competition and the efficiency and choice that it engenders. Tiebout (1956)<sup>7</sup> based on public choice theory, puts forth a model for determining the optimum expenditure level for public goods. He treats residents as consumers, who "shop around" for the communities that best fit their preferences. The competition among communities forces them to provide public goods at the most efficient level. Bennett (1996)<sup>8</sup> puts privatization in a theoretical context. Both decentralization and privatization reflect decentralizing trends from state to market and state to local levels of government. Competition is rarely found in markets for public goods because of the fundamental structure of such markets. Sclar (2000) challenges the argument that privatization creates competition, and therefore efficiency, in the public sector. Due to the nature of public goods, which may be less profitable and more complicated to deliver,

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<sup>7</sup> Tiebout Charles 1956. "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64:416-424.

<sup>8</sup> Bennett Robert. 1990. "Decentralization, Intergovernmental Relations and Markets: Towards a Post-Welfare Agenda?" Pp. 1-26 in *Decentralization, Local Government and Markets: Towards a Post-Welfare Agenda*, ed. Robert Bennett. Oxford: Clarendon Press.

most public contracting has no competition (monopoly) or minimal competition among very few firms (oligopoly).

Privatization is not however only about economics; it is also about politics. Political interest groups play a major role. Privatization also represents an overarching political agenda to alter the relationship between government and citizen. In his article, Henig (1990)<sup>9</sup> traces the development of the theory and the practice of privatization in the United States until 1989-90. He argues that privatization is a new name for an old practice of government contracting. He points to the political nature of the privatization agenda and questions its long term viability.

Another major issue is the impact of privatization on job security and employment. Proponents claim that public sector workers are not harmed by privatization. Displaced workers can be hired by contractors or transferred to other government positions. Organized labor, however, is very concerned about layoffs, erosion of wages and benefits, and decreased levels of union membership with privatization. Empirical studies show that privatization has not had a major impact on wages and working conditions, but it can have significant effects on labor relations.

Hebdon (1995)<sup>10</sup> views privatization as a disruptive, harmful way of cost saving. Examining the history of collective bargaining in New York State, he emphasizes the negative impact of privatization on unions and workers. Opponents present case studies that show public sector employees can provide more efficient alternatives to privatization (Sclar 1997). The expertise and experience of many government employees may make them better at providing government services and management techniques like total quality management is making the public sector more efficient.

Pendleton (1997)<sup>11</sup> analyzes the theoretical and actual impact of privatization on labor conditions in the United Kingdom, where employment in public sector has been reduced from 7.3 million to 5.3

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<sup>9</sup> Henig, Jeffrey 1989-90. "Privatization in the United States: Theory and Practice." *Political Science Quarterly*. 104(4):649-670.

<sup>10</sup> Hebdon, Robert. 1995. "Contracting Out in New York State: The Story the Lauder Report Chose Not to Tell." *Labor Studies Journal* (Spring): 3-29.

<sup>11</sup> Andrew Pendleton, (1997) "What Impact Has Privatization Had on Pay and Employment: A Review of the UK Experience." *Industrial Relations* 52 (3): 554-579.

million since 1979, by transferring public services to private ownership and contracting out and competitive bidding. He presents the objectives and the financial benefits of privatization in the UK. Pendleton then analyses the expected impact of privatization on industrial relationships firstly on pay and benefits and secondly on employment, labor, management, and industrial relationships. He finds the actual experience in the UK provides little clear-cut evidence in favor of all these arguments. Concluding his article Pendleton observes privatization does not have a consistent and strong effect on pay and employment. Deregulation and exposure to product market competition have a more powerful impact on firm behavior than transfer of ownership; the clearest indication of the power of competition comes from the local authority sector, where employment levels have fallen among both private and public sector service providers. Continuity in pay and employment among some monopoly privatized utilities with industry-specific technology could be partly explained by the lack of an alternative source of labor supply. Some of the most dramatic changes in labor management in privatized firms were due to deregulation of labor market rather than privatization. Therefore, the impact of privatization on labor relationship depends on labor market, product market competition, and transfers of ownership.

Legal concerns beyond labor issues are also important considerations in privatization. Legal debate starts from the argument that the public and private sectors are essentially different and their separate functions can be logically designated. Concerns about constitutional protections of citizens are raised and opponents worry that privatization may threaten citizens' constitutional rights. In his article Moe (1987)<sup>12</sup> argues the most important distinction between private and public entities lies in the concept of sovereignty that inheres in the public sector, giving it rights and immunities that the private sector does not, or at least ought not, possess. The most important characteristic that separates public and private is sovereignty. This issue of sovereignty is important, because private firms that contracted by the government may fall into a legal limbo. Many questions may arise, for example:

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<sup>12</sup> Ronald C Moe, (1987) "*Exploring the Limits of Privatization.*" *Public Administration Review* 47 (Nov/Dec): 453-460.

- If "private" can a corporation declare bankruptcy if providing a public good or service?
- Are employees, offices, and record protected or are they considered "public"?

Additional factors to be considered are issues of accountability, public safety, national security, and corruption in privatization.

## ***2.4 Privatization and Liberalization literature***

Meggison and Netter (2001)<sup>13</sup> on their privatisation research, survey the available (as of 2001) literature, and attempt to frame and answer the key questions addressed, in the literature, on aspects of political and economic government policies on privatisation. They then summarize the "Lessons" of divesting state owned assets and suggest the following conclusions:

1. The privatization programs of the last twenty years have significantly reduced the role of state-owned enterprises in the economic life of most countries. Most of this reduction has happened in developing countries only during the 1990s. The SOE<sup>14</sup> share of "global GDP" has declined from more than 10 percent in 1979 to less than 6 percent today (2001)
2. Research now supports the proposition that privately owned firms are more efficient and more profitable than otherwise-comparable state owned firms. There is limited empirical evidence, especially from China, that suggests that non-privatizing reform measures, such as price deregulation, market liberalization, and increased use of incentives, can improve the efficiency of SOEs, but it also seems likely that these reforms would be even more effective if coupled with privatization.
3. Governments use three basic techniques to privatize their SOEs: share issue privatizations (SIPs), asset sales, and voucher or mass privatizations. However, there is great variation within all the techniques, because privatization is a complex process involving a host of political and economic factors.

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<sup>13</sup> From State to Market: *A Survey of Empirical Studies on Privatization*, WILLIAM L. MEGGINSON and JEFFRY M. NETTER, *Journal of Economic Literature* Vol. XXXIX (June 2001) pp. 321–389

<sup>14</sup> State Owned Enterprises

4. Governments attempt to craft the offering terms of SIPs to balance competing economic, political, and financial objectives. Governments frequently retain golden shares that give them veto power over certain control changes, and also insert various other control restrictions into the corporate charters of privatized firms.

5. We know that privatization "works," in the sense that divested firms almost always become more efficient, more profitable, and financially healthier, and increase their capital investment spending. These results hold for both transition and nontransition economies, though the results vary more in the transition economies. The question of whether privatization generally costs at least some SOE workers their jobs is still unresolved. The answer is ultimately based on whether sales increase faster than productivity in privatized firms. Most studies find that employment in privatized firms usually does fall, though three large-sample studies document employment increases. What is clear is that whenever employment is cut, there is almost invariably a large compensating performance improvement. Several studies also highlight the need to bring new entrepreneurial management into privatized firms to maximize performance improvements. However, there is little empirical evidence on how privatization affects consumers.

A review of the literature on liberalisation reveals that privatisation is the main driver for the launch of the liberalisation process in many markets around the globe. For instance, the rise in foreign investments of the 1990s often consisted in the acquisition by multinational firms of state-owned enterprises and would not have taken place without their prior privatisation and the parallel liberalisation of the labour market that allowed large job cuts in privatised firms (Cornia, 2002)<sup>15</sup>. Most liberalisation research is based on case studies from market experiences. The available literature discusses mainly trade liberalisation, e.g. electricity and agriculture liberalisation, and capital account liberalisation<sup>16</sup>.

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<sup>15</sup> The impact of liberalisation and globalisation on income inequality in the developing and transitional economies, Working Papers, 2002

<sup>16</sup> Capital account liberalization, in broad terms, refers to easing restrictions on capital flows across a country's borders.

The advocates of liberalisation claim that it causes a reduction in domestic prices, offers major opportunities for export to the poor nations, channels world savings to countries with low capital accumulation but high rates of return on investment, accelerates the transfer of modern technology to backward countries and – as a result of all this - improves global economic efficiency. They also claim that liberalisation improves global income distribution.

The lessons learned from the liberalisation of the electricity trade among several members of the IEA, are drawn from electricity market experiences to date – lessons that are presented in an IEA publication of 2005<sup>17</sup>. Some of the key messages of the book are reproduced here. Electricity market liberalisation has delivered considerable economic benefits. Liberalised electricity markets provide a framework that can empower the consumer to exercise freedom of choice, to realise benefits from active response to prices and to consume energy more efficiently. Effective retail competition is a prerequisite to realising these benefits. Pioneers in electricity market reform have now been operating with considerable success for a number of years, delivering substantial benefits to economies. Finding the most effective way to develop competitive electricity markets that fulfil the goals of real economic benefits has not been clear, however. Scepticism and concerns are voiced in many countries, and debate continues on several key issues. The widespread blackouts in North America, Italy and Scandinavia in 2003 are also sometimes used to argue that electricity market liberalisation is a failed concept.

The benefits from Capital account liberalization should allow for more efficient global allocation of capital, from capital-rich industrial countries to capital-poor developing economies. This should have widespread benefits—by providing a higher rate of return on people’s savings in industrial countries and by increasing growth, employment opportunities, and living standards in developing countries. Inflows stemming from liberalization should also facilitate the transfer of foreign technological and managerial know-how and encourage competition and financial development, thereby promoting growth.

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<sup>17</sup> Lessons from Liberalised Electricity Markets, IEA, 2005

### ***2.5 Postal Services in the EU***

The EU postal sector is currently undergoing significant changes including gradual market opening, the rapid growth and falling costs of substitutive electronic media, new automation technology and new ownership structures. They increase the pressure on the sector to become more competitive and efficient; otherwise it might have negative consequences for employment and the sustainability of services. Different legal and market environments for European postal operators create distorted competition and discourage further reform. Additionally, there are a number of barriers preventing effective competition in the postal market, e.g. remaining monopolies, or varying authorisations and licensing systems. The obligation to provide postal universal service may imply an uneconomic cost in some areas of some countries, but it is vital for EU citizens and companies that the provision of universal service in all geographical areas is maintained<sup>18</sup>.

The regulatory framework regulating the process of liberalization of the European postal market is necessary not only to ensure high quality of the process, but primarily to avoid cross-subsidies principle between the reserved and unreserved areas of postal services (Brandt, 2007). As a result of the (partially) liberalised markets, constitutional questions associated with liberalisation and privatisation (Biaggini 1998) and attempts at market regulation to ensure basic provision are rapidly gaining significance.

The European Union sets thereby the rhythm of the market opening which is of crucial importance. The European Union tries to characterize the central terms such as 'Services of general economic interest' or 'Universal Services'. Exactly what is meant by services that are 'of general economic interest' or how 'Universal services' can be defined is currently the subject of a broad international debate (Cox 1996, 2001; Commission of the European Community 2000). Under these circumstances, it is difficult to come up with a concrete definition for basic provision. Specifying the content of the provision is also influenced by society's changing expectations and can thus ultimately only be

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<sup>18</sup> Amending Directive 97/67/EC concerning the full accomplishment of the internal market of Community postal services, SEC(2006) 1292

decided by way of a normative political approach based on social concepts (Thierstein, Abegg 2000).

The postal sector in all EU countries is divided between a universal guaranteed postal service – generally still furnished by a single main provider, which is almost always a public – and other service supplied by various national and multinational private companies. The current situation, therefore, is that of a still incomplete process of liberalization. The table below outlines the main operators and the liberalisation processes in the postal sector for the EU Member States and Norway.

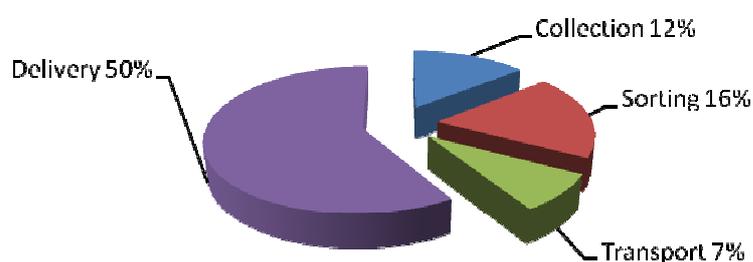
*Table 1: Postal services sector: Actors and trends*

Member State	Liberalisation status	Ownership of postal service suppliers
Austria	Reserved area under 50 g.	<b>Österreichische Post AG</b> is 51% owned by Österreichische Industrieholding AG (ÖIAG), which itself is 100% state owned.
Belgium	Reserved area under 50 g.	<b>La Poste/De Post</b> is 100% state owned.
Bulgaria		<b>Bulgarian Posts PLC</b> is a 100% state-owned joint-stock company whose 5-strong board is appointed by the Ministry of Transport and Communications.
Cyprus	Reserved area under 50 g.	<b>Kyprus Post</b> is a Communications ministry department
Czech Republic	Reserved area under 50 g. Possible full market opening envisaged in 2009.	<b>Czech Post</b> is state owned.
Denmark	Reserved area under 50 g. Gradual liberalisation since 1995.	<b>Post Danmark A/S</b> is 75% state owned
Estonia	Reserved area under 50 g.	<b>Eesti Post</b> is 100% state owned.
Finland	Fully liberalised	<b>Itella Corporation</b> provides "Posti" services
France	Reserved area under 50 g.	<b>La Poste</b> is 100% state owned
Germany	Liberalisation completed as of 1 January 2008.	<b>Deutsche Post</b> is a listed company, in which the German state is no longer the majority shareholder.
Greece	Reserved area under 50 g.	<b>Hellenic Post ELTA</b> is 100% state owned
Hungary	Reserved area under 50 g.	<b>Magyar Posta</b> is 100% state owned
Ireland	Reserved area under 50 g.	<b>An Post</b> is state-owned limited liability company. One ordinary share is held by the Minister for Finance and the remainder of the issued share capital is held by the Minister for Communications, Marine and Natural Resources.
Italy	Reserved area under 50 g.	<b>Poste italiane SpA</b> is a state-owned limited company.
Latvia	Reserved area under 50 g.	<b>Latvijas Pasts</b> is a joint stock company with the state as sole shareholder.
Lithuania	Reserved area under 50 g.	<b>Lietuvos paštas PLC</b> is state-owned.
Luxembourg	Reserved area under 50 g.	<b>P&amp;T Luxembourg</b> is 100% state owned.
Malta	Reserved area under 100 g.	<b>Maltapost</b> has been privatised.
Netherlands	Liberalisation completed as of 1 January 2008.	Private companies <b>Sandd</b> , <b>Selekt Mail</b> and <b>TNT Post</b> share the market.
Norway	Since 1997, harmonisation with the European directives	Norway Post ( <b>Posten Norge</b> ); - seven other large private mainly multinational companies in liberalised services; - several other minor enterprises-state-owned limited company 100% owned by the state
Poland	Reserved area under 50 g.	<b>Poczta Polska</b> is 100% state owned.
Portugal	Reserved area under 50 g.	<b>CTT - Correios de Portugal</b> is 100% state owned
Romania	Reserved area under 50 g.	<b>Poșta Română</b> is state owned.
Slovakia	Reserved area under 200g.	<b>Posta Slovenska</b> is 100% state owned.
Slovenia	Reserved area under 50 g.	<b>Posta Slovenija</b> is a corporation entirely funded by the state.
Spain	Reserved area under 50 g.	<b>Correos</b> is 100% state-owned.
Sweden	Fully liberalised	<b>Posten AB</b> is a 100% state-owned limited liability company.
United Kingdom	Fully liberalised	<b>Royal Mail</b> is 100% state owned.

Academic literature review provides a comprehensive assessment of the impact of the Postal sector privatization. Upon market opening the reserved area will no longer be the main source of funding the universal service and incumbents will have to find other resources to finance USO<sup>19</sup>. The commission considers it appropriate that universal service and the associated quality requirements set out in the Directive be maintained in full as well as keeping competition and least market distraction. The econometrics in postal sector is one of the main topics discussed by academics and practitioners in the sector.

The econometric approach is able to control the impact of a range of different factors that impact on costs simultaneously. Moreover, the approach can also quantify the impact of individual cost drivers. Econometric estimates of postal cost functions in Europe consider a total cost function, and individual cost functions for the upstream (collection, sorting, transport) and downstream (delivery) activities.

**Figure 1: Activity Cost in the Postal Sector (%)**



Delivery costs are by far the largest component of letter mail costs, on average accounting for about 50 per cent of total costs. Total costs for Postal services will also be affected by average labour costs and the efficiency with which postal operators (both public and private) combine inputs – labour, capital and materials – to produce outputs. A 10 per cent increase in the average wage will increase total costs by 6.3 per cent. Increased automation and subsequent falling letter volumes will also lead to restructuring and employment reductions.

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<sup>19</sup> Universal Service Obligation

## ***2.6 Overview of privatisation impact on EU member states***

After the above brief overview of the European Postal sector, following is an overview of the case studies on six selected EU postal operators, and they are referred comparatively to the case study of Hellenic Post – ELTA as being the major postal operator in Greece.

Privatisation has a different impact on each member state studied. Countries like the UK have abolished employee civil service status, while Germany and Belgium have retained some attributes of civil service employment relations, mainly in salaries. Austria which has privatized in 1996 has however retained full civil service employment status, like Poland where the incumbent is still state owned and with competition emerging in the postal market. The employment bargaining and the postal sector union density is considerably high in all member states and the wage levels of the incumbent are similar to the private sector salaries. This promotes competition as it is not an entry barrier for the firms to enter the postal market. The collective agreement regulation is divided in two categories. The majority of the member states face a Two tier LLR, where the Incumbent enjoys collective agreements and there are no full collective agreements for the private sector. The other member states face an Encompassing LLR with similar company wage level agreement in the postal market between incumbent and private sector employees.

Flecker & Hermann in their study, under the PIQUE project, refer to the substantial reduction in employment levels at the incumbent monopolists before and after liberalisation and privatisation. In Austria, Belgium, Germany and Sweden, between 15 and 37 per cent of the jobs at the former monopolists have disappeared. Contractual forms of employment also changed, with a marked increase of part-time and fixed-term jobs and other forms of uncharacteristic employment. The shift in employment to new established competitors accelerated this development.

## ***2.7 Chapter's Conclusion***

A lot has indeed been learned about the effectiveness of privatization and liberalisation as political and economic policies. Proponents support that the private sector is more efficient than the state, privatisation and liberalisation reduces the role of government and the private sector provides better services to customers. Critics consider the social aspects

of privatisation and liberalisation, consider state services as not suitable for privatisation and fear initial returns on privatization IPOs are significantly higher than the initial returns earned on private-sector IPOs.

In our view there are several important areas that need further research. We believe there are further aspects of privatization and liberalisation in the postal sector that needs to be understood much better for public policy reasons. A vital area of research is to conclusively document the labor economics of privatization and liberalisation programs. Do most such programs actually cost incumbent's workers jobs? Will old and new employee status be differentiated? Will there be a bargaining problem between the incumbent firm and a union for employee's wages? Will this wage bargaining act as a barrier to entry for new competitors? Will employment change impact postal service quality? Are there gender-specific impacts relating to the total commercialization of postal operators, as might happen if privatization and liberalisation caused the shutting down of child care or other social services? Are worker training/retraining programs effective methods of dealing with worker redundancies, or should governments emphasize lump sum severance packages when lay-offs are required? Will Human Resources Management systems reinforce the differences in employment conditions? How technology developments impact on employment conditions? Do privatization and liberalisation programs create more jobs economy-wide than they destroy? These questions are not only vitally important to policy makers; they are inherently interesting to society in their own right.

### **Chapter 3: Methodology (qualitative)**

Over the last two months, we closely studied the development of the organization under investigation, collecting both primary and secondary data. Regarding our project, we considered the qualitative methodology (in depth interviews and case studies), as more appropriate and feasible, since it was our aim to gain deep insight as to organizational members' perspective and with regard to their experience associated with privatization and liberalization of the postal sector. Qualitative research is descriptive in nature, because it analyzes data in depth. It provides insight into subtle nuances that the quantitative approach might miss and thus facilitates a coherent synthesis of the data (e.g. Yin, 2003; Pratt, 2008).

We define case study as a research strategy which focuses on understanding the dynamics present within single settings (Eisenhardt 1989) which, in our case, are public service organisations or companies in the context of liberalisation. Case studies are generally used to investigate a contemporary phenomenon within its real-life context; they are particularly helpful when the boundaries between phenomenon and context are not clearly evident; and they use multiple sources of evidence (Yin, 2003). In this project, the case studies are descriptive insofar as complex restructuring processes and their impacts are described. They are, however, also used in an explanatory manner because they make it possible to establish causal links between complex developments both internal and external to the organization. This means that the interpretative approach helps to understand the actual impact liberalisation and privatization have on work, employment, productivity and service quality.

In particular, the case study of Hellenic Post – ELTA was selected, since one of the two authors of this dissertation has been an employee of this organization for many years and the objective was to present the new *business strategy model* in order to face the business environmental challenges towards the restructuring process because of privatization and liberalization of the postal sector in Greece. As mentioned above, the primary data relies on a series of interviews with four employees of the

retail network and mainly with the director of the Commercial Unit of Financial Products of the Organization using a semi-structured interview guide. Secondary data was also employed, including press articles, company documentation, and company reports. The development of the case study of the Hellenic Post – ELTA followed well accepted approaches of design and execution of case studies including a criterion sampling strategy based on the conceptual criteria derived from the literature review, data collection through multiple sources of evidence, and an analysis strategy that aimed at the greatest possible completeness of the targeted information through a sequential and cumulative analysis of the data.

A detailed research protocol, including interviews relevant to the investigation, underpinned the study. The interview guides were generated starting from the literature review and the proposed conceptual framework. The team of researchers observed the organization during a period of two months. Interviews were tape recorded to the greatest possible extent, with notes taken in parallel. Immediate and full write up of the interviews followed and case study reports were produced.

### *Sample*

We conducted in depth interviews with five employees that have experienced on the new “two-tier LRR” which consists of fundamentally different forms of labour relations in the incumbent monopolist and the remaining public companies on the one hand and in new competitors on the other hand, within the postal services sector. The interviewees were randomly selected among a variety of individuals, since they were eager to respond to our questions, in contrast to others, and since their job positions and tasks in the Hellenic Post - ELTA were considered quite appropriate for the purposes of the research. The respondents are aged between 30 and 55 years. They hold different positions - managerial and non- managerial, since the study aims at depicting how employees placed in different positions experienced the company’s strategies in the liberalised and privatised public service markets, organizational change as well as changes in employment in the case study company, changes in industrial relations and human resource management, as well as changes in work organisation and working conditions.

All of the respondents work in the Hellenic Post-ELTA. Overall, three respondents of the sample work in the retail network postal offices and the two of them work in the central administration of the organisation: one of them is the Regional Manager, another one is the Human Resource Manager and finally the person that mainly helped is the Director of Commercial Unit of Financial Products. The interviewees are both men and women and work both in Thessaloniki and in Athens.

It was one of the aims of this project to create knowledge about restructuring processes and the management of change at the company-level in the postal sector. The objective was to assess changes in management, work organization, working conditions, training and quality management practices in the respective establishments, to analyse the impact of the regulatory framework as well as the strategies and views of management and labour, and to pay special attention to changes in work organisation, training and worker-participation schemes.

### **Questionnaire**

The questionnaire employed (please see the Appendix ) includes a wide range of both open ended questions primarily adapted from the project of the European Research Area titled *Privatisation and Liberalisation of Public Services – Improving the Regulatory Framework*, May 2010.

Concluding with the methodology approach, this study compares the secondary data analysis of the postal sector in the European Postal Operators and the secondary and primary perceptual data analysis (interviewees’ perspective) as far as the impact of the upcoming privatization and liberalization on the Hellenic Post – ELTA.

This project’s phases include:

1. Describing national modes of liberalisation and privatisation
2. Assessing the impact on employment, labour relations and productivity through secondary analysis.

3. Understanding restructuring processes and the management of change through company case studies

4. Integrating results, developing policy recommendations and disseminating research Findings ( Jefferys, Tasiran and Pond, 2011).

Consequently, our approach is a straight forward approach that is said to be more reliable due to the access to the data and information required. Our immediate access facilitated our work with the sincere and thorough interviews that can uncover deeper aspects and provide useful exchange of information. In addition, the wide working experience of the one of the two authors enhances the understanding of the complex phenomena of liberalization and privatization and the enormous impact they have on labour relations, in particular on Hellenic Post – ELTA as postal industry which is rather labour-intensive and where labour costs account for a large proportion of the overall costs.

Nevertheless, the findings of the research are immediately related to the responses of the respondents and for that reason there may be a limited scope and thus our findings cannot be generalized.

The case of Hellenic Post –ELTA is presented below as an introduction for the data analysis that follows in the next Chapter (Chapter 4).

### **3.1 The Case Study of Hellenic Post (ELTA)**

*The state-run Hellenic Post- ELTA has to go through major restructuring ahead of the liberalization of the postal services market in 2013. It is noted that most of the European postal industries have already been partially or fully liberalized by the end of 2010. Greece was granted a two year extension on the grounds of its geographical particularities that is its numerous islands.*

The government is set to gear ELTA towards new, innovative services and products with new technologies on the spotlight.

Sources told that the shut down or the merger of ELTA units seems to be a one-way street in the new, extremely competitive environment that is emerging.

The company is bleeding on costly payrolls due to the numerous staff of the national network that counts 800 post offices.

The big bet for the postal services provider is the differentiation from the traditional postal services that currently account for more than 85% of the company's turnover. ELTA posted H1 2009 losses that exceed 15 mil. Euros with its operational profitability being flat<sup>20</sup>.

### ***Business developments at Hellenic Post - ELTA***

Up to 1998 Hellenic Posts, the oldest and biggest company in the sector, whose majority shareholder is the Greek state, was a loss-making company whose debts were met by the state. In 1997, based on the Community directive prohibiting state subsidies, the Greek state paid off ELTA's whole debt of around GRD126 billion. Since 2000 ELTA has been showing a profit and in 2005 and 2006 its profits amounted to EUR10-12 million.

Due to the gradual liberalisation of the postal services market in the EU countries – it should be noted that the 2002 Directive set 2009 as a possible date for full liberalisation of postal services – and the growing competition that has arisen, Hellenic Post - ELTA, as the dominant company in the sector, made three strategic moves. First, over the last three years ELTA has entered the area of retail sales, either of its own products (e.g. company stamps, personal stamps, etc.), or the products of third parties (e.g. distribution of company gifts), following practices already implemented by other European post offices. It is calculated that total income from entry into the retail market is nearly 10% of the company's total turnover; ELTA officials regard this performance as meeting the goals that have been set.

Second, it has entered the courier services, through the establishment of a subsidiary, which already has a share of 10% of the courier service sector.

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<sup>20</sup> Capital.gr

Third, it has achieved growth of financial products, through its collaboration with the Postal Savings Bank. It should be noted that the Postal Savings Bank has gone public and ELTA owns 10% of its shares. Similarly, the Postal Savings Bank owns 10% of ELTA. The two enterprises have already set up a mutual fund management company.

### **Employment issues**

Of the total cost of ELTA, 75.4% consists of employee costs, the analysis of the various courier services cost categories, appoints the personnel salaries as the most important one (33%), followed by the operational expenses (23%), the transportation expenses (22%) and other expenses (13%). The latter mainly concerns the commissions of courier services providers paying other collaborative courier operators. According to the research, the majority of courier operators face difficulties in hiring and keeping personnel, especially couriers and motorbike-owning drivers.

Since the broader developments in the postal sector, with the gradual liberalisation of the market and the trends, already observed internationally, towards concentration of the companies in the sector in powerful groupings operating with private competition criteria (in their traditional form the state post offices also performed a social function, the obligation to serve the most geographically inaccessible areas, even at the expense of the company's finances), are leading to a readjustment, in the best of cases in terms of social dialogue, of industrial relations in this category of employees as well. The rationale of this readjustment includes the concept of competitiveness. For this reason more consensus-oriented trends have already made their appearance in the resolution of collective disputes.

However, the threat for ELTA employees is not only the existence of several different employment statuses among the employees (old/new), but also a gradual worsening of the terms and conditions of employment for employees already covered by the previous system, since they will gradually become a minority within the company. For the ELTA trade unionists, the full liberalization of postal services may indicate on the one hand conditions of distorted competition, but most importantly the entry

into the Greek market of international giants in the sector, resulting in loss of income and an attendant worsening of industrial relations<sup>21</sup>.

## ***Chapter 4: Data Analysis***

The data analysis implemented the open techniques (Strauss & Cobin, 1990) in order to link the qualitative data to the issues of research. Additionally, the pluralism and the immediate transcription of the interviews reassured the reliability of the research.

The proposal is based on the assumption that the impact of liberalisation and privatisation of public services depends, first, on the form of liberalisation and privatisation and the mode of market regulation and, second, on the strategies companies pursue in their reaction to the opportunities and challenges involved. Company strategies and processes of change, in turn are shaped by the institutional context of the national employment model.

While the various forms of liberalisation and privatisation have attracted great scientific attention, business strategies, restructuring, work organisation and human resource policies so far have remained outside the focus of the research on liberalisation and privatisation. Yet, the impact on productivity, employment and the quality of public services depends on the answers companies find for new opportunities and challenges as well as on organizational restructuring, use of technology, labour relations and work design.

### ***1. Hellenic Post – ELTA - Development of competition***

The above mentioned case of Hellenic Post - ELTA based on the authors' personal research, including reading of the press, articles and interviews.

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<sup>21</sup> Stathis Tikos, INE/GSEE

This is not a postal material. The case is presented in this part of the study in order to enrich the theoretical review of the privatization and liberalization of the postal sector with real examples.

## ***Postal sector regulation and postal policy***

### ***Short description of regulatory framework, liberalization and entry regulation***

The postal sector is regulated in the Greek Postal Act, Law 3185/2003; amending Law 2668/1998<sup>22</sup> Market opening in Greece follows the EU directives. At the moment items of ordinary correspondence with a weight limit above 100 gram and a pricing of three times the public tariff in the first weight step of the fastest standard category are liberalised, as is direct mail (above 100 gram for a single item), and incoming cross border mail (above 100 gram for a single item). The delivery of addressed bulk mail is not liberalised. Outbound cross border mail is also not liberalised. The delivery of periodicals and magazines is open to competition as well as the delivery of subscribed newspapers. The universal service comprises the delivery of letters up to 2 kg and parcels up to 20 kg.

The universal service provider is, amongst others, required to make at least five days per week one collection and one home delivery for every user of postal services. The Ministerial Decision 79293/2000 specifies, *inter alia*, the performance standards for delivery within one and three days of posting (D+1 and D+3) for First Priority Domestic mail and First Priority International mail. The quality specifications (delivery performance standards for domestic mail) on the basis of which the universal service is to be provided within the Greek territory, have been set for 2002 at 77% (for delivery within one day of posting) and at 90% (for delivery within three days of posting) for First Priority Domestic mail.

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<sup>22</sup> As there is not an English translation of the Postal Act, the exact content of the Postal Act was not available during the project. Greek content (probably) available at <http://www.yme.gr/viewpage.php?section=438&sessdata=19935d3660b179854fa4f3f6c345bbab#1>

All postal operators in Greece are required to file a notification of their operations with the national regulatory authority of Greece, the Hellenic Telecommunications & Post Commission (EETT). Notification is required for all companies that operate commercial conveyance of letters and other addressed consignments. For courier services a general authorisation is obtained through notification. For other postal services that belong to the liberalised area, an individual licence is required. The reason behind the difference for both kinds of services is that courier services concern postal items of a special urgent transportation have particular handling, postal item routing and delivery time characteristics.

The Ministry of Infrastructure, Transportations and Networks is responsible for the postal sector policy in Greece. The regulator EETT supervises and regulates the postal services market. EETT's purpose is to promote the development of the postal sector, to ensure the proper operation of the relevant market in the context of sound competition and to provide protection of the interests of the end-users.

### ***Short description of relevant developments with regard to the regulatory framework***

The postal regulator has dealt with disputes regarding:

- Alleged unlawful distribution of mail by a competitor in the reserved area. The case concerned unlawful collection of postal items mainly in the reserved area by two global operators. In both cases, the dispute concerned re-mailing practices;
- Illegal operation of courier companies, without the necessary general authorization for the provision of postal services, issued by EETT.

The USP decided to reclassify certain direct marketing activities as personal mail, which led to extremely high tariffs, according to Fedma. The Greek regulator criticized Hellenic Post for these activities and has imposed sanctions, which until now the USP has not acknowledged.

### ***Short description of the postal sector policy***

The Ministry of Infrastructure, Transportations and Networks has very recently announced its intentions concerning further liberalisation of the

postal market. According to the regulator, by the 1/1/2013 the Greek Postal Market will be fully liberalized concerning the delivery of addressed mail and regulated access to the facilities of the incumbent. The main reason given for a gradual liberalisation of the postal market in Greece, are the specific geographic conditions prevailing in Greece with a large number of islands and remote villages in mountainous areas.

### ***Forces governing competition (Porter analysis, contestability of markets)***

#### ***Short analysis of relevance of Porter's forces governing competition (if different from general analysis)***

##### ***Government regulation***

The Greek postal market is to a large extent reserved to Hellenic Post and will, after 1 January 2006 be reduced to 50 gram. Because of the specific geographical conditions of Greece with many islands, the universal postal services need more attention in Greece than in other countries.

##### ***New entrants***

At the end of 2004, nearly 300 postal service operators were registered by EETT. These operators are all active in express and courier services. For the distribution of 'regular' addressed mail, only a few licenses have been requested and handed out. However, quite some courier companies with general licenses also –illegally- handle mail items that require an individual license. Hellenic Post estimates that in total 10% of the market has been captured by competitors.

##### ***Substitution***

Substitution is expected to have a further negative impact on mail volumes. An estimate of the size of the impact could however not be given. Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information.

One of the most important characteristics influencing the Greek postal market is the geography of the country. Due to the many islands and the low degree of urbanization the average cost of collection and delivery is relatively high. In addition, both the total and the per capita mail volumes are relatively low. The share of direct mail in the total mail volume is around 6%, a figure that is very far below the European average. Due to the high costs of postal delivery a large increase in direct mail volumes is not very likely, with the possible exception of Athens and some urban areas. Because of the severe cost heterogeneities in delivery, competition in a liberalised market is most likely to take off in Athens and other urban areas, severely reducing the possibility of the USP to cross-subsidise its activities in the remote, more costly, areas.

Under the current circumstances with a low level of competition, ELTA manages to cover the costs of the universal service obligations in rural areas with the profits from the urban areas.

### ***Facts and figures for the national postal operator and the strategy of the national postal operator***

The Greek national postal operator Hellenic Post (ELTA) has experienced growth in mail turnover over the last four years from 283 million euro to 447 million Euros. Growth in turnover has especially been strong in the non-priority segment. Growth in the segment of advertising mail, both addressed and un-addressed has been modest over the same period, while distribution of newspapers and periodicals has remained relatively stable. ELTA has been losing market share in the international mail market due to the operations of international postal operators. The loss is noticeable in both inbound and outbound ordinary letter mail and value added services such as express mail.

### ***Competitor postal operators and effect of competition on market structure and market performance***

#### ***Existence and strategies of competitor postal operators***

In the distribution of regular addressed mail, there are no competitors. The only competitors of ELTA are active in courier and express services.

### ***Effect of competition on market structure and market performance (result indicators), including on US provision***

Given the fact that the NRA has given only two special licenses, official competition is minimal. However, in practical terms, most of the generally licensed companies have developed activities within the domain of the universal service. In the outbound cross border mail area, three global operators seem to be active without having a license for this purpose.

Hellenic Post – ELTA expects in the case of liberalisation of the postal market to lose over 25% of its market share in addressed items of correspondence and addressed advertising mail. For incoming cross border mail, the expected decline of the market share is 5 to 10%. One large corporate customer expects that a further liberalisation of the postal market will result in better services at reduced costs. With this in mind, this customer is in favour of a fully liberalised postal market, enabling him to choose between different postal operators.

## ***2. The impact of European integration***

It must be noted that European integration has been *one* important factor among several that have been driving liberalization, privatization and deregulation. There is evidence that internal socio-economic and fiscal developments, too, were among the determinants of the push towards privatization during the 1990s (Zohlhöfer and Obinger, 2006). Moreover, as Britain under Margaret Thatcher demonstrates, government ideology cannot be dismissed as an explanatory factor. Yet EU membership seems to have been at least as important as some or all of these domestic forces.

From the mid-1980s onwards, the programme to complete the Single Market put additional pressure on member states to privatize and restructure the public sector in line with European competition law, state-aid rules and other 'market-making' norms. In general, public services are only subject to the competition rules of Article 86 if they are 'services of general economic interest'. That is, the rules do not apply to non-market 'services of general interest' such as social protection and education; nor do they cover more general state functions such as security and justice.

Undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly shall be subject to the rules contained in this Treaty, in particular to the rules on competition, *in so far as the application of such rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them*. The development of trade must not be affected to such an extent as would be contrary to the interests of the Community. (Article 86.2 EC Treaty, our emphasis)

In other words, the pursuit of general-interest goals is still possible but has to be made *explicit*. Even where sectors have been opened up to competition, solidarity-based financing of the general-interest component is approved—for example, via a universal service fund—but should not conflict with competition rules.

The tendency to extend the EU market rules to the public sector has met with active political resistance from some of those member states where the notion of non-market public services is deeply entrenched, notably France. France led several initiatives in the 1990s to put the issue on the European agenda and provide for clearer European regulations on the role of public services.<sup>2</sup> This led to the inclusion of Article 16 in the Treaty of Amsterdam, which generally acknowledges the important role of ‘services of general economic interest’. Moreover, the European Commission has, in various instances, tried to keep the issue of public services in Europe on the agenda, a process which led to the 2004 ‘White Paper on Services of General Interest’ (CEC, 2004).

In terms of legislation, the issue of general-interest services has influenced the liberalization of crucial sectors including telecommunications, postal services, public transport, gas and electricity. To varying extents, public-service goals, including the notion of a ‘universal service’, have been included in the relevant Directives. These sectoral developments cannot be described here in detail. On a more abstract level, a general endorsement of the role of national services of general economic interest has been included in the Charter of Fundamental Rights (Article 36). The Charter, however, is not legally binding (Ferrera, 2005).

### **3. *State of liberalisation and privatization***

The liberalisation process has been fundamentally influenced by Regulations at EU level. In the early 1990s the European Commission (EC) started to discuss ways to include the postal services in its initiatives for a European single market. This led to a green paper in 1992 and a draft directive at the end of 1995 that was finally agreed in December 1997, followed by a further directive in 2002. The main aims of European legislation were to establish a standard reserved area for letters and access conditions for licensed operators, to introduce independent regulators in each Member State, to set quality standards and to establish clear principles on pricing. The reserved area was originally set at letters weighing less than 100g or costing less than three times the standard service. This threshold applied from 1 January 2003 and was then reduced on 1 January 2006 to letters weighing less than 50g or costing more than 2.5 times the standard service. Initially it was planned to achieve a fully open market by 2009.

Current discussions envisage the market across Europe to be fully open by 2011 – or by 2013 for some countries, e.g. Greece and Poland. The partial opening up of the market has been accompanied by a polarization between large providers of the universal service operating in a market that is at least partly guaranteed, and an often heterogeneous and fragmented array of alternative providers in search of new market niches and segments to occupy. In this process, companies have pursued various strategies in terms of corporate transformation, reorganization and product diversification and in search of new markets at home and abroad. Nonetheless, a concern shared by all of them is the need to reduce costs (Regalia 2007: 30).

The liberalisation of the letter market was introduced step by step through various restructuring measures and the formal privatisations of national postal companies, e.g. their transformation to a company of private law. The first formal privatisation (i.e. the transformation to a company of private law) of the former monopoly postal company took place in Sweden in 1994, followed by Germany in 1995, Austria in 1996, Belgium in 2000 and the United Kingdom in 2001. Only in Greece and Poland are the incumbents still companies with a public legal form. **In all countries the privatisation processes were accompanied by restructuring and**

**reorganisation measures of the different postal services divisions of the previous monopolists which started before the formal privatisations.** These reorganisation measures led to massive staff reductions in Germany, Sweden and Austria. Sometimes whole divisions were separated. Especially the telecommunication divisions were split off very early from other postal service divisions. This process started in the UK when Telecom was split off from the Post Office in 1981 and then privatised in 1984. Letter-, parcel- and counter services normally remained as subsidiary companies under the roof of the incumbents. In contrast financial services were often sold to third parties - United Kingdom, Austria. Whereas in the UK, Sweden and in Poland the ownership still remains exclusively public, in Belgium and Austria private investors hold a minority of shares. Since 2005 Germany is the first country where private investors hold a majority of shares of the postal services incumbent. Besides formal and material privatizations of the former monopolists, outsourcing of services to subcontractors has been a privatization model concerning the transport of postal items (in Germany, United Kingdom, Austria) and counter services (in Germany, Sweden, Austria, United Kingdom)<sup>23</sup>.

***Focusing on the effects of liberalisation and regulation on competition and market shares, even in those countries where the letter markets have been fully liberalised, the incumbent has a dominant position:***

British Royal Mail still accounts for 96 per cent of the regulated letter market. Yet while in the British case it may be too early to judge the consequences of complete market-opening, this argument hardly holds for Sweden. After years of full liberalisation Posten AB still holds 93 percent of the letter market. Its main competitor, City Mail, has acquired 6.5 percent after more than 15 years of existence. Only in Germany did the incumbent - Deutsche Post AG - has 91 percent of the letter market as early as 2006. Compared to Sweden this was after a short liberalisation process. On the other side Deutsche Post AG has established a lot of subsidiaries in countries abroad and seems to have become the world's leading post and Logistics Company. Up to the present in Poland, Austria and Belgium there are liberalised letter markets, but no competitors on

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<sup>23</sup> An overview of the main postal operators and liberalisation processes in 26 member states can be found in: Regalia (2007: 5-10).

the letter market. In these countries there exist only competitors for courier services and the delivery of newspapers and advertisement brochures.

#### ***4. Comparing the transformations of labour relations regimes***

The transformation of labour relations regime in all the above referred European postal industries and in particular in the examined Greek Postal Operator - Hellenic Post – ELTA - has been influenced by overlapping privatisation- and liberalisation effects:

Before the formal privatisations post offices were determined by public law employment, centralised collective bargaining and in addition partly by civil service wage regulation (Austria, Germany). Due to formal privatisations post offices have been separated from national public sector collective bargaining or wage regulation in favour of new collective agreements at firm level. Due to fragmentation of the incumbents in different services units (e.g. telecommunication-, financial-, letter- and counter services), a multitude of company agreements have been settled in favour of one universal wage regulation for the whole postal sector. This has largely been due to outsourcing measures and the existence of subsidiaries.

As a consequence of liberalization, new competitors have emerged, which have mostly concluded company agreements. Hence, the bargaining coverage is still very high - except for the German letter market - because of the high market share of the new competitors without company agreements. On the other hand an increase of self-employed deliverers is visible in Austria and Poland. In addition the union density is still very high at the incumbents between 60% in Poland and 97% in Sweden, but extremely low in most of the competing companies. In Austria, Germany, Poland and the UK new "two-tier LRR" has been established with different LRR for the incumbents and the competitors. In contrast in Belgium and Sweden rather "encompassing LRR" emerged.

However, it has to be kept in mind that companies running delivery services outside the letter post market (e.g. courier-, express- and parcel services or the delivery of advertisement, newspapers and journals) often

try to expand on the letter market after liberalization. For example, in Austria potentially new competitors on the addressed letter market are firms who are engaged in the delivery of advertising. Currently they are not active on the addressed letter market, but they aim at being active there in future, thus the situation could change quickly. Another example is the newspaper industry in Germany, which owns the majority of shares of the "Pin Group", which has been established as the most important new competitor in the German (addressed) letter market. Hence, in this analysis some indications about delivery services besides the letter postal market will be given if they are considered relevant as potential competitors.

## **Chapter 5: Discussion of Findings and Recommendations**

Here we will present and discuss the findings based on research project in investigating the impact of privatization and liberalization on the postal services sector on market regulation, employment and productivity and quality (European Research Area,2010).

The need for regulation of liberalisation and privatisation processes in order to ensure accessible and affordable high-quality postal services. It underlines that the expected improvement through privatisation and liberalisation has not taken place in all areas.

### **The findings have been divided into four policy areas:**

- market regulation
- employment
- industrial relations
- productivity and service quality

### ***I. Market regulation***

**Liberalization aims at building competitive market structures, in which many providers compete with each other in an integrated and easily accessible market.**

The research findings show that the evolution towards highly competitive market structures has not or only very partially been achieved in most sectors and countries under investigation.

**With changed ownership structures and an expanded share of private ownership, new regulatory regimes have emerged.**

the focus of regulation has shifted from governing the entire process of service provision to regulating only particular aspects of the service supply chain or to partially controlling outcome.

General trends also include the establishment of formally independent regulatory authorities with varying degrees of autonomy and powers to discipline or coordinate market participants, the granting of licenses and the signing of contracts.

While there is a universal service obligation for the universal services providers in the postal sector, and some similar regulations exist for certain suppliers in some countries, many public-service providers are not subjected to any comparable public-service commitments.

European citizens strongly support the notion that public services should be universal.

**There is no clear link between the degree of competition and private ownership on the one hand and consumers' satisfaction with service provision on the other.**

Liberalisation and privatisation, alone does not guarantee accessible, affordable high-quality public services. What is needed to make a difference is more regulation.

## ***II. Employment***

**The main strategy by companies in response to the liberalisation of markets is to reduce labour costs by reducing employment levels.**

**Liberalisation and privatisation therefore lead to:**

job reductions rather than employment creation,

more part-time jobs in the four sectors studied,

- an increased number of self-employed and temporary workers,
- lower wages and spread of precarious employment in some sectors and countries like the postal services sectors in Germany and Austria

**This, in turn, can result in higher costs for public authorities forced to top up wages below the poverty threshold with welfare benefit payments.**

**Company restructuring and changing business strategies led to:**

- a reform of human-resource management (HRM),
- introduction of HRM policies where they did not exist before,
- an imbalanced access to training across the workforce.

**As a consequence of restructuring and changes in work organization, the workforce employed in public-service sectors is becoming increasingly polarized, both in terms of forms of employment and working conditions.**

### ***III. Industrial relations***

**The reduction of labour costs is a core element in improving competitiveness. Labour costs can be reduced by:**

- rationalising production processes (substituting machines for workers),
- lowering wages, extending working hours or using cheaper forms of employment,

⇒ setting up new forms of wage setting with changes in collective bargaining, wage levels and employment conditions.

**Liberalisation has usually led to a two-tier system in collective bargaining. Bargaining structures are relatively stable at the level of the incumbent and rather decentralised and fragmented with low bargaining coverage at the level of the new competitors.**

Only in Sweden and Belgium, labour-relation systems offer high degrees of coverage and coordination.

Union-density levels are relatively high within the former public monopolists and often rather low within the new competing companies. Unions lack organizational power to push for new collective agreements. The newly liberalized markets often lack any

sector-wide regulation or coordination of labour issues that might limit or even prevent competition on wage costs.

□ *There is a competitive disadvantage for the incumbent monopolists, who have higher social standards.*

Within privatized companies there is a growing division between 'old' and 'new' employees and between the core and peripheral workforce. Additional segmentations result from outsourcing practices; workers affected are covered by new collective agreements, or even no agreement at all.

Overall, because of the fragmentation of labour relations and increasing discrepancies in wages levels and employment conditions, a level playing field is missing. Wage differentials serve to act as incentives to compete on labour costs and are thus likely to bring about a 'race to the bottom'.

#### ***IV. Productivity and service quality***

There is some evidence that public-service companies temporarily respond to liberalisation and privatisation by taking greater recourse to employment cuts in order to boost productivity. This is confirmed by the company case studies, which show that similar outputs are produced by significantly smaller workforces.

1. Public service providers in liberalised markets often combine an increase in productivity with the lowering of labour costs by paying lower wages or using atypical forms of employment (often in combination with outsourcing and the creation of independent subsidiaries).
2. Many cases showed improvements in quality through productivity measures, such as speeding up processes, using new technology or enhancing responsiveness in customer care.

Measures to enhance quality have only been observed where they do not conflict with the aim of cutting costs and employment. Quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation.

In postal services, the incumbents have put substantial effort into speeding up the delivery process. At the same time, however, they have

significantly reduced the number of post offices and the number of employees working in the post offices.

The tension between increasing productivity and improving service quality is particularly apparent in postal operators’ highly labour-intensive services. In some cases a negative impact on quality may become apparent only in the long term. Lower investment in network infrastructures, for instance, may, in the long term, lead to a deterioration of the network quality and therefore jeopardize the security of supply.

Our research, on the other hand, has shown that public service companies in liberalized markets improve quality very selectively. They also introduce different prices for different groups of consumers. This partly explains the widespread reservation against competition and the simultaneous strong support for choice.

### ***1. The liberalization and privatization trigger Restructuring processes and changing business strategies in Hellenic Post - ELTA***

In the case of Hellenic Post – ELTA restructuring relies entirely on new technologies: highly automated sorting centers, technology to optimize delivery routes, portable communication devices, new software for universal post office counters and new monitoring and reporting systems – all these innovations not only will help to reduce employment levels but also they will change the working environment.

Overall Hellenic Post – ELTA in order to be in the position to face the challenges generated by new technologies needs to invest on a regular basis in HRM policies relate to personnel development and training, management control and staff motivation towards the process of liberalisation and privatization so that it will be succeed high levels of competition. In parallel, ELTA should be aiming to adopt an appropriate work culture, which will lead to increases in the company’s efficiency and the development of personnel. The programs implemented should

have the target of preparing the employees to draw upon the new investments and the technological transformation of the organization.

To meet these challenges, managers must understand the company's strengths and weaknesses and be able to compare them accurately to those of their worldwide competitors. Strategic planning provides valuable tools that help managers address these global challenges. What Is Corporate Strategy, and Why Is It Important?

Corporate strategy is concerned with the way firms make fundamental choices about corporate developing and deploying scarce resources globally. Corporate strategy involves strategy decisions that deal with all the various functions and activities of the company, not merely the way that it is activated in a specific sector such as marketing or production. The goal of the corporate strategy is to achieve and maintain a unique and valuable competitive corporate objectives position both within the nation and globally, a position that will be termed as the *competitive advantage* of this postal industry. This suggests that a modern company either must perform competitive activities different from those of its competitors or perform the same activities in different advantageous ways. “*Senior management teams are continually struggling to cultivate environments that breed and nurture innovation through the good times and bad.*”(Seamon, 2004). To create a competitive advantage that is sustainable over time, a company has to develop skills, or competencies, that create value for customers and for company to have services or products, which customers are willing to pay for.

### ***Payments strategies and opportunities for postal operators around the world***

#### ***Challenge or opportunity?***

On the face of it, the picture for a traditional postal operator in payments like ELTA is gloomy – powerful forces are likely to continue attacking and eroding postal operators’ traditional footing in the payments market. There is therefore little doubt that the traditional postal payments business is undergoing an inevitable decline in many countries. Our analysis, however, suggest that there are four potential building blocks of a

winning strategy for postal operators: 1) defend the core franchise aggressively; 2) develop merchants as a natural niche segment; 3) identify and pioneer new technology trends with natural fit; and 4) leverage payments as a gateway to a broader financial services offering.

### **1. *Defend the core franchise aggressively***

The first element of a successful payments strategy is for the postal operator to proactively defend its core payments business by fighting aggressively for important payment contracts such as high-profile electricity, gas and other utility bill payment services.

Postal operators should compete strongly on price and, where possible, negotiate terms as exclusive provider. Postal operators should also work closely with respective governments to preserve and enhance the close relationships they have for delivering government payments and transactions such as pensions and benefits. For example, Hellenic Post – ELTA as being the mayor postal operator in Greece has successfully negotiated with government to defend its position as the provider of pension payments. They did so by highlighting the critical social benefit they provide by offering pensioners the choice to receive their payments at home via the postman.

By definition *the new business model* implemented by the Hellenic Post – ELTA aiming at being transformed of a traditional Postal Services Provider into a reformed Competitive Postal Operator is one of the greatest challenges of ELTA after the strategic decision that it has taken very recently of entering into the *advanced model of postal financial business as the ELTA very recently was designated as one of the Payment Providers in the Greek Market*. The upcoming ELTA's transformation into an alternative Financial Institution in the Greek Banking Market seems to be a feasible and a very promising objective. The implementation of this business model of providing postal payment services is based on the Directive on Payment Services (PSD) which provides the legal foundation for the creation of an EU-wide single market for payments. The PSD aims at establishing a modern and comprehensive set of rules applicable to all payment services in the European Union. The target is to make cross-border payments as easy, efficient and secure as 'national' payments within a Member State. The PSD will reinforce the rights and protection of all the users of payment

services (consumers, retailers, large and small companies and public authorities). The PSD also seeks to improve competition by opening up payment markets to new entrants, thus fostering greater efficiency and cost-reduction. At the same time the Directive provides the necessary legal platform for the Single Euro Payments Area (SEPA). After the formal adoption by the European Council and the European Parliament and the publication, the provisions of this Directive implemented by all Member States by 1 November 2009. Greece has adopted the PSD since July 2010 through Credit Beneficiary's Account and National Clearing System (DIAS). The new Directive, applicable to Financial and Payment Institutions, will benefit ELTA's efforts being on this way the owner of transactional accounts and accomplishing the task of Bill's collection, payments and money transfer business, not only in cash, as it happens by today, but debiting or crediting its customer's accounts. The new postal payment services are offered by ELTA, including bills' collection, pensions and social benefits payments, and also money transfer, is expected to yield remarkable turn over and represent the 75% of the total ELTA's financial business. The newly launched financial project of Hellenic Post – ELTA is defined as sustainable entrepreneurship as the teleological process targeted to producing economic and social prosperity in the Postal Operator.

Cost reduction is an essential part of the defensive strategy as it positions postal operators to compete for payments contracts on price and on value. Postal operators in many developed economies have sought to reduce costs by rationalizing their counter networks to offset the erosion of both payments-related income and the impact of competition and substitution in the core mail business. For example, postal operators in many countries including Austria, Denmark, Ireland, Portugal and the U.K. have seen substantial branch closure programs ranging from 15 to 30 percent in the past decade. In some countries this trend is slowing, as counter networks reach a minimum coverage required to serve the population; in others, further reductions are likely. Postal operators can also reduce costs through franchising their postal counters – typically to established retailers. For example in Holland, TNT is moving towards an almost exclusively agency-based postal network.

As volumes decline, another solution to manage unit cost is to boost volumes through “in-sourcing” activities. Deutsche Postbank, for example, processes payment transactions for other German banks, and Ireland’s An Post processes payments and data, including tax returns, through its BillPost subsidiary. Low-cost operating models and automated terminals can also drive down transaction costs; for example the Payshop system underpins bill payment and prepaid mobile phone top-ups in all postal branches in Portugal and in several thousand small retailers. Taken together, these actions can significantly reduce the overall cost base of the postal operator and enhance its ability to compete aggressively in the payments market.

## ***2. Develop merchants as a natural niche segment***

Merchants, especially small and medium size retailers, require infrastructure support to accept and process customer payments and often seek to expand the payment services offered to customers. This typically requires a multitude of contracts with different providers. As many postal operators have adopted agency franchise models, they already have close relationships with many of these merchants. This positions postal operators as the natural and potentially exclusive provider of a compelling suite of products and services for merchants. At the core of this strategic value proposition are products that drive footfall: government payments, foreign remittances, bill payment, mobile phone top-up, and the core mails offering. Additional products – including travel ticketing, foreign exchange, prepay cards, ATMs, and postal financial services – are important for securing customer loyalty. Bundled alongside this customer proposition could be a compelling support proposition for agent services such as merchant acquiring, check and paper processing services, business banking and cash logistics, and even point of sale terminal maintenance.

## ***3. Identify and pioneer new technology trends with natural fit***

New technology, regulation and changing customer demand will continue to drive change across the payments industry. Although new technology is often a threat to postal operators, it also offers areas of opportunity.

Contactless payment systems can offer a top-up opportunity (much like prepay mobile phones), and the "dictator effect" can drive rapid customer adoption when, for example, a sole provider like the transit system introduces a new payment device. New charging schemes such as congestion charging, parking permits and fines, local taxes, and fees have the potential to increase payment transaction volume and revenue and are typically a natural fit for postal operators.

EBPP and electronic invoicing provide additional important opportunities for postal operators. As discussed in a prior article ("E-invoicing in Europe: Substantial value hiding in plain sight," McKinsey on Payments, June 2008) electronic invoicing could save businesses and consumers across Europe tens of billions of Euros. Trends in consumer behavior and adoption of new technologies are also opening up opportunities for postal operators as a trusted intermediary providing services such as secure electronic messaging, identity management and payment verification.

#### ***4. Leverage payments as a gateway to a broader financial services offering***

In the past 10 to 15 years, many postal operators have successfully re-established their traditional role in mass market retail banking services, often by leveraging their existing payments franchise, customer base, and trusted brand as a gateway to broader financial services, placing them in direct competition with mainstream retail banks. This growth opportunity is particularly attractive at a time when the core mail business is coming under pressure from liberalization, competition and e-substitution, as it can provide an additional revenue stream to support the cost base. Typically, this involves the postal operator providing a suite of transactional and relationship products, ranging from simple savings products to full banking and insurance offerings. At this time of financial turmoil, customers are mindful of the trustworthiness and security of depository institutions, and postal operators are benefiting from the perception of an implicit state guarantee, allowing them to attract substantial new deposits. There are opportunities for existing financial institutions to partner with the postal operator, combining the strong postal brand and established delivery channels with the bank's payments and banking expertise.

In many countries, particularly in emerging economies, postal operators have a unique opportunity to provide a mass market financial services offering to the unbanked population. This builds on the unrivaled reach, trusted brand and regular contact that postal operators already have through payments, benefits and remittance products. For example, in Kazakhstan, Brazil and South Africa, postal operators have established basic post accounts for receiving pension and salary payments, and for extending financial services to segments served poorly by retail banks. Even in developed countries such as Belgium, France and the U.K., postal operators play an important role in financial inclusion by providing convenient local access to basic banking services and cash.

Furthermore, international collaboration among postal operators could leverage the global network of 660,000 postal establishments. Eurogiro, one of the first systems for cross-border exchange of automated clearing house payments, is a striking example of postal operators' leadership in payments innovation and now supports 3 million money order and credit transfer transactions per month. The new Postal Payment Service Agreement adopted by the Universal Postal Union last summer is expected to enable postal operators around the world to offer faster and more secure electronic money transfer services, which can be offered to unbanked populations and immigrant workers. Future online trends may also bring closer collaboration around hybrid mails, secure messaging and electronic document sharing to support additional payments business.

Trends in the payments market are impacting the traditional role of the postal operator, and there is little doubt that in many countries the long-term outlook is a decline in their core payments business. However, postal operators can develop new growth areas to offset this decline and reinforce their role within society. To do so, they need to be more proactive, and take a strong approach to defending their business. We also believe that there are real opportunities for postal operators to supplement their existing payments business and step further out and develop new ways to create value, both financially for the business and socially for their countries (Gerard and Seeley, McKinsey on Payments, 2009).

Overall, the case-study evidence makes it possible to trace changes in work organization and working conditions back to restructuring processes triggered by the liberalization and privatization of public services. One of the companies' main aims is to cut costs. This is achieved by investing in new technology, by growing workloads brought about by job cuts and changes in work organization and by reducing labor costs by means of more flexible working-hour schemes. Cost reduction is an essential part of the defensive strategy as it positions postal operators to compete for payments contracts on price and on value.

### ***Discussion of findings and recommendations***

While liberalization, above all, is about the introduction of competition in formerly protected markets, the question of what parameters companies should compete on has widely been neglected in liberalization and privatization discourses. Although there are many different forms of competition, companies can essentially follow two different strategies: ***they can either compete on quality and innovation***, which includes elements such as innovative products, high service quality, efficient and productive organization of work and production, including a well trained and motivated workforce etc., ***or they can compete on labour costs***, by lowering wages, extending working hours or using special forms of employment linked with lower labour costs (e.g. self-employed workers, subsidized employment).

The first approach can be described an innovation and quality-driven competition model that follows a ***high-road strategy*** to corporate success. The second approach tends to ensure a downward spiral with deteriorating wage and employment conditions resulting in a ***low-road economic survival strategy***. Of course, if allowed to do so, companies will always try to lower their wage costs, especially in labour-intensive sectors with a high proportion of labour costs. Regulations, including industry-wide collective agreements that prevent companies from adapting a low-road strategy, are therefore all the more important.

The impact of liberalisation and privatisation on labour relations is thus of vital importance for the question of what strategy public-service

providers follow in liberalised markets. As the services under discussion are public postal services, which means that they are essential for the wellbeing of many citizens, competition should not only focus on lowering prices, but also on facilitating innovation, improving quality and expanding accessibility. In order to avoid competition that is primarily carried out at the expense of the employees, liberalised markets need a strong labour regulation that creates a common level playing field for all competitors and makes it possible to follow a high-road strategy.

## ***2. The emergence of a new labour-relations regime in the liberalized and privatized sectors***

Liberalisation and privatisation of public services have fundamentally challenged the traditional LRR in the public sector. In liberalised markets, former public companies and monopoly suppliers have been forced to ***transform their entire organization into a private for-profit business*** and have to compete with new private companies. The affected sectors and companies have been put under increasing competitive pressure to reduce labour costs, and they consequently try to transfer this market pressure to the workforce. As a result, new LRRs have emerged in liberalised and privatised sectors with no or only very weak links to the traditional public-sector LRR.

Although there are some significant national differences and variations, the main characteristics of these new LRRs can be described as follows. Regarding collective bargaining, liberalisation has usually led to a two-tier system with relatively stable bargaining structures at the level of the incumbent and a rather decentralised and fragmented bargaining structure with a low bargaining coverage at the level of the new competitors. One of the first things former public postal sector companies often do after privatisation is to withdraw from the central public sector collective agreement in order to establish their own bargaining structures mostly in the form of new agreements at company level. Furthermore, after liberalisation new competitors emerged, which in several sectors and countries are covered by no or different collective agreements and which profit from lower employment standards, lower wages and longer or more flexible working hours.

### ***3. Sector- and country-specific developments***

The extent to which liberalisation and privatisation lead to competition on wages and labour costs with potentially negative effects on working and employment conditions depends basically on two factors. First, it depends on the degree of real market competition in the postal services sector. Liberalisation and privatization have not always automatically led to more competition and in some sectors and countries competition is de facto still rather limited (Herrman and Verhoest, 2008). However, companies in the postal sector often already use the potential of higher competition to put pressure on wages and working conditions. The second factor, which strongly influences the degree of competition on labour costs, is nature of the national LRRs and their abilities to create a sector-wide regulation on working conditions in order to create a common level playing field (Kerzner, 2009).

The table 2 below gives an overview about competition on labour costs in liberalised and privatised postal services sector and existing differences between incumbents/public companies and new competitors. It is noticeable that in countries with more centralised and comprehensive collective bargaining systems, such as Belgium or Sweden, the degree of competition on labour costs is still rather low, since a strong sector-wide regulation and/or coordination is able to ensure that wages and working standards are quite similar. In contrast, in countries with more decentralised collective bargaining systems, such as Poland or the UK, moderate or even strong competition on labour costs has emerged in postal sector. Finally, in Germany and to a lesser degree also in Austria, liberalisation and privatisation have contributed to a significant decentralization and fragmentation of collective bargaining, leading to a moderate or even strong competition on labour costs. The most extreme case is the German letter market, where wage differences between the incumbent and the new competitors are up to 60%.

***Table 2: Competition on labour costs in liberalized and privatized sectors***

<b><i>Country</i></b>	<b><i>Postal Services (letter market)</i></b>
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<i>Austria</i>	<i>Strong</i>
<i>Belgium</i>	<i>Low</i>
<i>Germany</i>	<i>Strong</i>
<i>Poland</i>	<i>Moderate</i>
<i>Sweden</i>	<i>Low</i>
<i>United Kingdom</i>	<i>Low</i>

Source: Torsten Brandt and Thorsten Schulten, *Liberalisation and Privatisation of public services and the the impact on labour relations*, December 2007, PIQUE Research Report, available to download at [www.pique.at](http://www.pique.at)

#### **4. Need For Social Regulation**

The liberalisation and privatisation of public services has led to a fundamental transformation of the established labour-relations regimes in the public sector with far-reaching consequences for employment and working conditions. The consequences are most obvious in those liberalized sectors that have already achieved a high degree of market competition and where wage costs are a crucial element in the competitive position of the individual company. The German letter market is a prime example where the competitive strategy of new competitors is mainly based on wage dumping and relatively poor working conditions. In most other sectors and countries the competition on wage costs is still less pronounced, due to a much lower degree of market competition. However, this may change in the future.

From an employee's point of view there is a strong belief that liberalisation and privatization primarily threaten established standards and lead to a significant deterioration of pay levels and working conditions. This project may indeed have found some evidence for such a view. Especially the new competitors, which emerged after liberalization, often provide much worse working conditions than the incumbent or the remaining public companies. Under competitive pressure the latter also started to change their working conditions, e.g. through the establishment of two-tier wage structures and a growing divisions between a core and a peripheral workforce.

With the trend towards decentralisation and fragmentation, collective bargaining has often lost its capacity to create a level playing field and to take wages and working conditions out of competition. In order to avoid a downward competition at the expense of the employees and to focus on a more innovation and quality-oriented model of competition, there is a pressing need for social reregulation in liberalised and privatised sectors. Since the policy of the European Union has a major impact on the liberalisation process, social regulation requires political action at both national and European level.

### ***5. Social Regulation at European level***

Since there is a growing awareness of the potentially negative effects of liberalisation and privatisation for employees, the social regulation of liberalised markets has also become an important policy issue at European level too. Considering the recent EU regulation on public transport in 2007, for example, there is a provision according to which public authorities are free to impose certain social standards in order to “ensure transparent and comparable terms of competition between operators and to avert the risk of social dumping.”<sup>24</sup> There is a similar passage in the new EU directive on postal services, which explicitly emphasises that “social considerations should be taken into account when preparing the opening up of the postal market.”<sup>25</sup> Moreover, according to the EU directive on public procurement, public authorities are always free to define certain social standards in public tenders.<sup>26</sup>

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<sup>24</sup> Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, OJ L 315, 3.12.2007, 1-13.

<sup>25</sup> Directive 2008/6/EC of the European Parliament and the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services, Official Journal of the European Union L 52, 27 February 2008, OJ L 52, 20.02.2008, 3-20.

<sup>26</sup> Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts, OJ L 134, 30.4.2004, 114–240.

In order to avoid the negative consequences of liberalisation and privatisation, the EU should not undermine the national competences for social regulation. After the recent ECJ judgements it seems to be necessary to clarify the basic interpretation of the European Treaty in order to ensure that economic freedom is not placed above social protection, for example through the introduction of a "Social Progress Clause" as recently proposed by the European Trade Union Confederation.<sup>27</sup>

Finally, there should be a regular monitoring of the impact of liberalisation and privatisation on labour relations and working conditions at EU level. Here is also an important role for the European social dialogue between trade unions and employers' associations in the affected sectors, which could help to identify good national practices for the social re-regulation of liberalised markets.

To sum up, liberalisation and privatisation have so far promoted a model of competition that is largely based on the reduction of wage costs and not on the improvement of quality and innovation. As long as liberalisation is widely associated with the deterioration of working conditions it will continue to lack support and legitimacy among large sections of the employees affected. The alternative is a social reregulation of liberalised markets that protects and improves working standards and so puts the focus on a high-road strategy in order to achieve both better work and better services.

## **Chapter 6: Theoretical and Managerial Implications**

Overall, the findings of the study are undoubtedly important and unique since none of the previous studies has referred to the case study of Hellenic Post – ELTA provided detailed insights into the Company' s

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<sup>27</sup> European Trade Union Confederation, ETUC response to ECJ judgements Viking and Laval. Resolution adopted by the Executive Committee of the ETUC at its meeting of 4 March 2008 in Brussels.

strategies, organizational change, employment consequences, industrial relations, working conditions and service-quality aspects.

In terms of theoretical implications, this study fills the important literature gap since there is a scarcity of papers conducting a survey for the Greek postal sector. Our study focused on the impact of liberalization and privatization of Hellenic Post – ELTA the Greek incumbent that has already employed a new business plan in order to succeed in transforming from a traditional postal services provider into a Competitive Postal Operator so that it will confront the new challenges of liberalized postal markets successfully and effectively.

Through this study we attempted to close this gap by investigating the relationship between employment, productivity and the quality of public services in the process of liberalisation and privatisation. The project’s main hypothesis is that decent employment and working conditions impact positively on productivity and service quality while the provision of decent employment and working conditions depends on the regulation of liberalisation and privatisation processes and the resulting market and ownership structures. The level of the company is crucial in this respect as it is in the companies that decisions about specific strategies are made, which then shape the relationship between employment, productivity and service quality. The project is highly innovative because it integrates results from different dimensions that are usually researched separately (regulation, employment, productivity, quality) and does so by crossing national boundaries. It is also innovative because it actually goes into companies to assess the impact at the point of service delivery.

With regard to the managerial perspective of the phenomena, the study enhances already existing literature regarding the implications of the privatization and liberalization on the new Labour Relations Regime. Furthermore, it takes organization members perspective into consideration and completes with the European Research Area, *Privatisation and Liberalisation of Public Services – Improving the Regulatory Framework*, (2010) study, which has highlighted the impact

of privatization and liberalization on the postal services sector on market regulation, employment and productivity and quality and the article "*McKinsey on Payments, 2009*" written by Benoit Gérard who is a principal in the Brussels office, and Jules Seeley who is an associate principal in the London office and is referred to the Payment strategies and opportunities for postal operators around the world.

Moreover, this research expands professor Katsikeas' academic insights (2010) on business strategy. According to him, the *aim of the strategic business plan is to improve the quality of the provided services, to increase productivity and to optimise the human capital utilization*. An analysis of the forces controlled by the Company – Hellenic Post – ELTA - will also include a situational analysis and a forecast. As part of this process, management must address three key questions:

- (1) who are the company's target customers,
- (2) what value does the company want to deliver to these customers, and
- (3) How will this customer value be created?

The value chain analysis itself focuses primarily on the third question, and it refers to the set of value-creating activities that the company is involved with. A simplified value chain although this analytical approach has been credited to Professor Michael Porter and consists the value chain concept that has been around for decades. The desired outcome of this analysis is the identification and establishment of a superior set of well-integrated value chain activities and linkages, **a system that will permit the organization to more effectively and efficiently develop, produce, market, and sell the company's products and services to the target customers, thereby creating the basis for global competitive advantage, Knowledge as a Controllable Corporate Resource.**

In today's highly competitive, rapidly changing, and knowledge-intensive economy, companies have the potential to achieve competitive advantages through leveraging their organizational knowledge across national boundaries. This organizational knowledge base includes the capabilities of employees (individually and in teams) as well as the knowledge that gets built into the overall organization through its various structures, systems, and organizational routines. As a valuable, scarce, and often unique organizational resource, knowledge is increasingly

recognized by management as the basis for competitive advantage. As a result, managers are developing sets of techniques and practices to facilitate the flow of knowledge into and within their companies, to build knowledge databases, to transfer best practices, and otherwise to create the foundation for a knowledge-based competitive advantage.

Additionally, this research expands Professor Nancy Papalexandris' academic insights (2010) on HR and Corporate Strategy. According to her insights, HR has never been more necessary than today. The competitive forces that managers face today and will continue to confront in the future demand organizational excellence. The efforts to achieve such excellence – through a focus on learning, quality, teamwork, and reengineering – are driven by the way organizations get things done and how they treat their people. Those are fundamental HR issues. To state it plainly: achieving organizational excellence must be the work of HR. The question with senior managers is what they should do with HR. The answer is they should create an entirely new role and agenda for the field that focuses on traditional HR activities, such as staffing and compensation, but on outcomes. HR should not be defined by what it does but by what it delivers – results that enrich the organization's value to customers, investors, and employees.

Finally, the most important academic study that contributed to a great extent to our research was the professors Christoph Hermann's and Birgit Mahnkopf's working paper under the title "*The Past and Future of the European Social Model*", written in May 2010 in Berlin School of Economics and Law. It is a study on the conclusions from the crisis and the future of the European Social Model, which analyzes the nature and some of the main characteristics of the European Social Model it also summarizes major changes that have been introduced in the last three decades and which amount to an erosion of the ESM. Special attention in this process is paid to the role of the European Union. The last part of the paper then discusses a possible revitalization of the ESM based on three major projects: the renewal of the European welfare states, the reconstruction and expansion of the public sector and the democratization of the EU and of European societies.

## ***Chapter 7: Conclusions***

The case studies on the impact of the liberalisation and privatisation of public postal services provided detailed insights into company strategies, organisational change, employment consequences, industrial relations, working conditions and service-quality aspects. The findings show that companies have taken different approaches in tackling the liberalisation and privatisation of public services and the threat of competition. Reactions included mergers and acquisitions, investment outside their home markets and the diversification of supply; the diversification of customer relations, including new pricing policies that favour some groups of customers over others; a reduction of production costs through concentration, outsourcing and the introduction of new technology; a reduction of employment and the payment of lower wages through lower wages for new employees, the creation of independent subsidiaries and outsourcing, as well as an intensification of work; training has been stepped up for some groups of workers while it has been cut for others.

Overall, the case studies show that in many cases the main company objective, i.e. the reduction of production costs, has been reached at the cost of workers, many of whom have experienced liberalisation and privatisation primarily as a worsening of employment and working conditions. This has been achieved by a far-reaching fragmentation of labour standards. In some sectors and countries, such as postal services in Austria and Germany, liberalisation and privatisation even threaten to transform a public service into a low-wage sector. While most case-study companies have increased productivity, usually as a result of staff cuts, the consequences for the quality of services are mixed: there has been some improvement in areas where it was possible to combine quality gains with investment in new and often labour-saving technology, e.g. the provision of postal financial services and the next-day delivery of postal items.

In sum, the main objective of companies in liberalised and privatised markets is to make profits and they do so, among other things, by cutting costs. Not surprisingly, in their efforts to reduce costs, companies adopt practices, such as outsourcing, that have often been used – or are current management fashions – in the wider economy. Frequently this has been

combined with improvements in productivity and, in some cases, in quality. Often, however, cost reductions have been based on worsening employment and working conditions, which more than once have had a negative effect on quality. Overall, the changes have clearly contributed to increases in societal inequality, both among European citizens, who are affected by customer differentiation and discriminatory price policies, and workers, who receive increasingly different wages for policies, and workers, who receive increasingly different wages for doing the same job.

*(Count words: 17,520)*

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## Tables & Appendix 1

**Table 1: Costs and benefits of providing universal services of ELTA per type of region (millions of euros)**

Type	Revenues	Costs
Urban area	86	56
Semi-urban area	23	26,5
Remote area	12,5	28,5

Source: Annual report EETT

**Table 2: Liberalisation of postal services and the reserved area**

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Above 100 gram liberalized
Outbound cross border mail	Yes	
Direct mail addressed (incl. catalogues)	Yes	Above 100 gram liberalized

<b>Periodicals/Magazines</b>	<b>No</b>	
<b>Newspapers</b>	<b>No</b>	
<b>Un-addressed mail (direct mail, weeklies)</b>	<b>No</b>	

Source: ECORYS questionnaire (2005)

**Table 3: Entry regulations**

<b>Instrument</b>	<b>For what service? Which services can a postal operator provide?</b>	<b>What are the Conditions?</b>	<b>How many have been issued? (2005)</b>
<b>General Authorisation</b>	<b>Courier services</b>		<b>295</b>
<b>Individual Licence</b>	<b>Postal items weighing from 100 gram to 2 kg. Newspapers, books, catalogues and magazines, weighing up to 2 kg.</b>		<b>6</b>

Source: ECORYS questionnaire (2005), EETE website

**Table 4: Competitors on the postal market**

<b>Postal operator</b>	<b>Volume mail /Turnover mail</b>	<b>Number of employees</b>	<b>Service level (number of deliveries per week)</b>	<b>Coverage</b>
<b>Delta Post</b>	<b>170 million items delivered</b>	<b>50 permanent 2,500 part-time</b>	<b>1</b>	<b>Nationwide</b>

Source: ECORYS questionnaire (2005), website

**Table 5: State of Liberalization in the six selected European Postal Operators**

	Austria	Belgium	Germany	Poland	United Kingdom	Sweden
Incumbent privatisation	1996	2000	1995	N/A	2001	-
Civil service wage status	Yes	Wages, working time only	Wages only	Yes	No	No
Employment bargaining/Union Density	80%		80%	100%	65%	100%
Wage difference between incumbent and private sector employees	Not substantial	Not substantial	Huge differences	Not substantial	N/A	Not substantial
Incumbent collective agreements	95%	Company level	80%	100%	Public sector	Public sector
Private sector collective agreements	10%	Contract	None	100%	None	100%
Incumbent market share	98%	Quasi-monopolist	Many competitors	Monopolist	Many competitors	One competitor
Collective agreement regulation of the incumbent and the competitors	Two tier LLR	Encompassing LLR	Two tier LLR	Two tier LLR	Two tier LLR	Encompassing LLR

## ***Appendix 1: Questionnaire***

- 1. How far has the evolution towards highly competitive markets been achieved?**
- 2. What are the trends in regulation?**
- 3. Are consumers more satisfied with private or public providers of public services?**
- 4. How do liberalisation and privatisation affect employment?**
- 5. How do liberalisation and privatisation affect work organisation and training?**
- 6. How do companies attempt to reduce labour costs?**
- 7. What are the changes in collective bargaining and unions-density levels?**
- 8. What is the impact of fragmentation of labour relations?**
- 9. What are the trends in productivity?**
- 10. What are the consequences of productivity increases on quality?**